

MINUTES

NATURAL RESOURCES COMMISSION

DECEMBER 4, 2008

**LANSING CENTER
333 E. MICHIGAN
LANSING**

PRESENT FOR THE NRC

Keith Charters, Chair
Frank Wheatlake, Vice-Chair
Mary Brown
Darnell Earley
John Madigan
J. R. Richardson

ABSENT FOR THE NRC

Hurley Coleman

PRESENT FOR STAFF

Jim Riley, Legal Counsel
Rebecca Humphries, Director
Rodney Stokes, Chief of Staff
Mindy Koch, Resource Management Deputy
Dan Eichinger, Legislative Liaison
Stacy Welling, Upper Peninsula (UP) Field Deputy
Teresa Gloden, Assistant to the NRC
Other DNR Staff

COMMITTEE OF THE WHOLE

Chairman Charters called the Committee of the Whole meeting of the Natural Resources Commission (NRC) to order at 3:00 p.m.

U.P. FIELD DEPUTY NAMED - STACY WELLING

Director Humphries introduced Stacy Welling, who was recently named the UP Field Deputy for the Department of Natural Resources (DNR) beginning December 1. Stacy was the granddaughter of a former DNR conservation officer and most recently served as the campaign manager for U. S. Congressman Bart Stupak. She also served as Governor Granholm's northern Michigan representative, working with stakeholders and individuals throughout the UP and northern lower Michigan. Ms. Welling will oversee DNR operations throughout the UP, and will work out of the Marquette Operations Service Center.

Director Humphries thanked **Tom Courchaine** for his service as acting UP Field Deputy since the retirement of Jim Ekdahl earlier this year.

Ms. Welling said she is a life-long UPer and is honored to be selected for this position.

LEGISLATIVE UPDATE

Director Humphries referred to the Washington DC report from **Carol Bambery, General Counsel, Association of Fish and Wildlife Agencies**. She highlighted the U. S. Supreme Court opinion relative to wetlands. **Director Humphries** reported that she would be attending the annual winter meeting of the Association of Fish and Wildlife Agencies Executive Committee beginning on December 16 where one of the main topics will be recruitment and retention.

Director Humphries distributed a DNR Legislative Update report from **Dan Eichinger, Legislative Liaison**, and asked if anyone had questions on any of the items. None were asked.

TURKEY COOPERATOR PATCH CONTEST WINNER PRESENTATION

Director Humphries recognized the turkey patch contest design winner and acknowledged a partnership with the Michigan Chapter of the National Wild Turkey Federation (NWTF) and Michigan State University. This is the 21st anniversary of the turkey patch program. In 2002 the NWTF stepped up to handle much of the program when budgetary constraints threatened to curtail the program, and Troy Hopkins' involvement has been key to the success of the program.

Director Humphries introduced **Jonathan Knieper** from Chesaning, who developed the winning design of the 2009 Wildlife Turkey Management Cooperator patch, and congratulated him on his design.

The NWTF Michigan Chapter thanked the DNR for allowing their continued participation in this program.

BEAR MANAGEMENT PLAN UPDATE

Doug Reeves, Wildlife Division, presented an update on the bear management planning process. He presented a chronology of the process, beginning with the regional public meetings and proceeding through the finalization of the report from the Bear Consultation Team. He reviewed the membership of the Consultation Team. He said that, using the public input, Wildlife Division staff are currently drafting the Bear Management Plan. **Mike Thorman, Michigan Hunting Dog Federation**, who is also a member of the Consultation Team, presented **Director Humphries** with a signed copy of the Bear Consultation Team's report, "Recommendations for Bear Management in Michigan." He said until one gets involved in a process such as developing these recommendations, one does not realize how many programs staff work with and how much work staff does. He said this was a good experience.

Chairman Charters said he appreciates the time commitment and hard work on behalf of the Consultation Team.

DEER SEASON UPDATE

Rod Clute, Wildlife Division, provided a preliminary deer harvest estimate for the 2008 deer season compared to 2007. He emphasized that this is very preliminary and said a more definitive update will be given at a future meeting.

Upper Peninsula: Total Harvest of 32,000 – Down 22%
(Wisconsin down similarly)
(Believes hunter participation from non-UP residents is down.)

Northern Lower Peninsula: 91,000 harvested – Up 7%

Southern Lower Peninsula: 149,000 harvested – Up 1%
(buck harvest decreased)

Statewide Total: Virtually unchanged

Commissioners Madigan and Richardson believe hunting pressure in the UP was down and believe the new hunting regulations in the UP are well supported.

Dr. Steve Schmitt reported that so far, 3,316 deer have been tested in the chronic wasting disease (CWD) zone in Kent County (1,362 deer in the core area), and 4,683 deer have been tested in the remaining portion of the Lower Peninsula for a total of 7,999 tested. So far, no CWD-positive deer have been detected. **Dr. Schmitt** said that some hunters believe since no additional CWD has been detected, the baiting ban should be lifted. However, **Dr. Schmitt** said one year of testing isn't enough and testing needs to continue for another two years; during that time they will look for target animals that may show signs of CWD.

Dr. Schmitt reported there have been no additional CWD test-positive deer in captive cervid facilities. However, testing needs to continue.

Relative to baiting, **Dr. Schmitt** said biologists are seeing less agricultural products in the deer heads being tested this year, possibly indicating a reduction in baiting.

Director Humphries said under the Memorandum of Understanding between the State of Michigan and the U.S. Department of Agriculture, the Michigan Department of Agriculture is required to test all cattle herds within six months and within a 10 mile radius of a bovine TB-positive deer if it is outside the modified accredited zone. Since the MDA has accomplished the testing and no positive cattle herds have been detected, the high-risk designation has been dropped.

In addition, the DNR is required to test a minimum of 300 deer in the 10-mile radius annually for five years.

Dean Molnar, Law Enforcement Division, presented a preliminary law report on the 2008 deer hunting season comparing 2007 to 2008 as follows:

Lower Peninsula:	2007	-196 non-Report All Poaching (RAP) Complaints
	2008	-911 non-RAP Complaints (365% Increase)
	2007	-155 RAP Complaints
	2008	-1372 RAP Complaints (785% Increase)
	2007	-166 Tickets Issued
	2008	-559 Tickets Issued (296 Warnings)

The number of calls coming into the RAP line increased 51 percent primarily due to baiting complaints. Bait piles appear to be smaller, but many are still visible via air.

Lt. Molnar believes the public is behind the baiting ban based on the amount of complaints being received and believes hunters are starting to adjust to the ban. Baiting and feeding fines are set by a judge between \$50 and \$500.

PRESENTATION TO COMMISSIONER DARNELL EARLEY

Due to new demands and responsibilities as President-Elect of the International City/County Management Association, Commissioner Earley will not seek reappointment to the NRC. His term expires December 31, 2008. Consequently, the December 4, 2008 meeting is his last meeting as a Commissioner.

Chairman Charters presented him with a white pine plaque acknowledging his time served on the NRC and for his continuous encouragement and support of the DNR staff. The Chairman congratulated Commissioner Earley on his appointment and wished him well.

Commissioner Earley said it has been an honor to serve on the NRC. He believes that DNR staff is doing the best they can to manage the resources of Michigan and everything that can be done is being done. He offered his assistance even when he is no longer a Commissioner.

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The Committee of the Whole meeting adjourned at 4:00 p.m. and the Public Appearances portion of the meeting convened at 4:00 p.m.

PUBLIC APPEARANCES

Thomas Buhr, Au Sable Big Water Preservation Association
Travis Johnson, Michigan Wildlife and Business Association
Kelly Neuman, Streamside Custom Rod and Guide
John Ernst
Dean Hall, Michigan Bow Hunters Association
Jack Kleinhardt
Michael Brownfield, Michigan Bow Hunters Association
Millard Holton, Mason
Jenness Wiegand, Citizens for a Quiet Community
Ellen Nitz, Citizens for a Quiet Community
P. J. Garner, President, Michigan Wildlife Rehabilitation Association

Thomas Buhr, Au Sable Big Water Preservation Association, expressed concern with the proposed brown trout minimum length and limit as outlined in the new modified type 6, and 2 brown trout, minimum length 15 inches, on the Au Sable River between the Mio Dam and Alcona Pond. He believes there should be a “no kill on brown trout.”

Travis Johnson, Michigan Wildlife and Business Association, claims to represent sportsmen, wildlife feeders, farmers, business owners, off-road vehicle (ORV) users, snowmobilers, outdoor enthusiasts and Michigan citizens. He opposed the ban on baiting and feeding of deer.

Kelly Neuman, owner, Streamside Custom Rod and Guide, discussed fisheries regulations on the Au Sable and believes allowing catching a trout below trophy size is not good management. The new proposed regulations do not take into account additional pressure on the river. He said there has been a drop in trout numbers in this area and the new fishing regulations, as proposed, cause a negative impact on trophy fish. He supports catch and release and supports raising the minimum catch size

John Ernst believes a lifetime license sportsman license holder should be eligible to bear hunt without having to go through the lottery drawing process. **Chairman Charters** asked that **Jim Riley, Legal Counsel, and Pat Spitzley, Office of Legal Services**, report back to the NRC on this matter.

Dean Hall, Michigan Bow Hunters Association, said the Michigan Bow Hunters Association supports many special hunting seasons that would precede bow hunting season and have an interest in hunter recruitment and retention. He believes the discussions being held on crossbows is going well and will continue to work with the NRC and DNR staff on the issue. **Commissioner Madigan** said if the resource can handle additional hunting pressure and modifications will get more individuals into the woods, additional crossbow hunting opportunities should be allowed.

Jack Kleinhardt opposes the ban on baiting and feeding and believes it took away his right to enjoy deer in his back yard. He does not believe feeding and baiting deer spreads disease.

Michael Brownfield, Michigan Bow Hunters Association, believes a more detailed review should be done of the economic impacts of additional opportunities for crossbow usage.

Millard Holton, Mason, supports allowing additional crossbow usage opportunities.

Jenness Wiegand, Citizens for a Quiet Community, questioned what had been done as a result of the most recent sound test conducted at the Island Lake Shooting Range.

Ellen Nitz, Citizens for a Quiet Community, does not believe that activities at the Island Lake Shooting Range are in accordance with preservation of Michigan’s natural resources. She recommended changes should be made to reduce noise.

Director Humphries said Dennis Fox had provided a brief summary of the test results at the November NRC meeting. She noted that a meeting was scheduled between the local community, Senator Garcia and DNR staff to further discuss the issue. She asked

if closing the Range for the holidays helped. Ms. Wiegand said it was nice on those days, but the noise issue remains.

P. J. Garner, President, Michigan Wildlife Rehabilitation Association, thanked Director Humphries and the NRC on work done with CWD. She thanked **Dr. Russ Mason and Dennis Knapp** for attending their annual meeting on November 15 in Clare. She supports Option B of Wildlife Conservation Order, Amendment No. 17 of 2008.

The Public Appearances portion of the meeting adjourned at 4:47 p.m. and the Regular Meeting of the NRC convened immediately.

APPROVAL OF MINUTES – NOVEMBER 6, 2008 NATURAL RESOURCES COMMISSION MEETING

Commissioner Madigan made a motion, supported by Commissioner Wheatlake, for approval. Motion unanimously carried.

POSSESSION, TRANSPORTATION, AND REHABILITATION OF LIVE WILD DEER, ELK, AND MOOSE, WILDLIFE CONSERVATION ORDER, AMENDMENT NO. 17 OF 2008

Commissioner Madigan made a motion, supported by Commissioner Earley, to approve Option B. Motion unanimously carried.

TAXIDERMY REGULATIONS, WILDLIFE CONSERVATION ORDER, AMENDMENT NO. 20 OF 2008

This Amendment will be held over for future consideration.

DIRECTOR'S ACTION ITEMS

Director Humphries will approve all of the Director's Action items on the Agenda **except the Mio to McKinley Stretch of the Au Sable River Main Stream**. Her comments follow:

"Due to significant and ongoing interest by stakeholders regarding the new regulations proposed for the section of the Au Sable River from the Mio Dam to the Alcona Pond backwaters, it is my intent to sign an amended version of Fisheries Order 200 that will maintain the current fishing regulations on this section of the Au Sable River rather than implement any changes at this time."

"There are clearly diverse opinions related to the management of the trout fishery in this section of the Au Sable River. I am interested in maintaining appropriate regulations to manage the trout resources in the Au Sable, while continuing to provide outstanding and diverse fishing opportunities for all anglers. In an attempt to craft appropriate regulations for the future, I am aware that Fisheries Division will be conducting a thorough creel survey on this section of the Au Sable River during the 2009 fishing season to answer at minimum three key questions:

- How much angler effort currently exists for rainbow trout and brown trout in these waters?
- How many rainbow trout and brown trout are being harvested from these waters? and,
- What is the age and size composition of that harvest?"

"I am also aware that Fisheries Division will be completing a comprehensive review of our current trout stream regulations during 2009 to determine their continued usefulness for designating trout streams appropriately across the state."

"Therefore, I believe that one additional year of status quo on regulations is appropriate while this important work continues on the Au Sable River. In addition, I am hopeful that those concerned stakeholders with an interest in this section of the Au Sable River will partner with us in these efforts and help us reach the best possible answers to these questions."

NRC POLICY COMMITTEE REPORTS

The NRC Policy Committee on Wildlife and Fisheries met at 10:00 a.m. on Thursday, December 4, 2008. Minutes are attached.

Crossbow Discussion: A discussion on crossbow usage was held beginning at 12:30 p.m. on Thursday, December 4, 2008. Notes from that discussion are attached.

The NRC Policy Committee on Finance and Administration met at 1:30 p.m. on Thursday, December 4, 2008. Minutes are attached.

COMMISSIONER REPORTS

Commissioner Earley said it has been an interesting 3.5 years and he is grateful to have served on the NRC.

Chairman Charters noted that the Michigan Natural Resources Trust Fund Board met on December 3, 2008. Over \$35 million in acquisition grants were awarded and \$13 million in development grants were awarded. He said residents of the State of Michigan should be thankful that the Legislature and staff had the foresight in the 1970s to designate oil and gas revenues as monies to be utilized for recreational land purchases in perpetuity. (Chairman Charters is a member of the Michigan Natural Resources Trust Fund Board representing the NRC.)

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The meeting adjourned at 5:00 p.m.

NRC POLICY COMMITTEE ON WILDLIFE AND FISHERIES:

The meeting convened at 10:00 a.m.

Inland Consent Decree Update

Nicholas Popoff and Pat Lederle presented an update on the Tribal Inland Consent Decree. Both gentlemen expressed how well the consultations have been going between the DNR and the Tribes. They are both very pleased with the communications.

Nick explained that in Fisheries the consent decree focuses on key fish species, which include walleye, steelhead, and salmon. The tribes have reporting requirements and notifications for each species. Nick outlined the 2008 reported take within certain areas. For walleye in Bay de Noc, 81 permits were issued for 810 walleye; 154 walleye were actually harvested, the decree allows a walleye harvest limit of 2,500; In the walleye lake systems, 346 permits were issued, 2,967 walleye declared in the harvest. The decree allows a 47,713 walleye harvest limit; in relation to Little Manistee weir salmon, 914 salmon were available for harvest. In protected steelhead streams, there is a 450 fish harvest limit for 15 stream segments. Thus far in 2008, 32 permits issued for 96 fish.

Nick outlined the dates for the key fishing reporting requirements: January 31 the sport and Tribal harvest data is due; March 1 the work plan sharing between Parties is due; June 30 the Bays de Noc harvest is due; and December 15 the final walleye harvest limits is due to Parties.

Pat explained that the tribes can authorize the number of elk licenses equal to 10 percent of the State license quota. In the 2008 August and September elk hunts, the tribes had eight antlerless and four any sex licenses. In December, they will have 15 antlerless and eight any sex. For bear, the tribes can allocate 10 percent of available harvest per BMU. The Wildlife Division has information sharing sessions scheduled with tribes in April and June and also before the Elk and Bear seasons are set.

2009 Wildlife and Fisheries Issues Calendar

Michael Bailey provided a calendar of issues for the NRC consider. This will be finalized in January.

Taxidermy Regulation Change Update

There was a proposed amendment to the taxidermy regulations last month. There are additional discussions occurring on this topic and action will be held over another month.

Deer Possession, Transportation, and Rehabilitation Update

Last month, there was a proposed regulation change regarding deer rehabilitation. After discussions with Michigan rehabilitators a second option was drafted. **Mike Bailey** presented Option B, which included the following: no rehabilitation of wild deer from the TB area and the CWD surveillance zone; rehabilitated deer in the eight counties surrounding the CWD zone would be required to be marked and separated by county and released in the county of acquisition; deer rehabilitated from the rest of the state

would be marked and then released; and there would be no rehabilitation of elk or moose allowed.

Habitat Update

Dr. Russ Mason, Chief, provided an update on Wildlife Division habitat management. Russ explained that habitat is the ecological function for all wildlife and the DNR and partners are managing large amounts of habitat. Russ highlighted the different types of habitat we have impacted from brush management to forest management to grassland and openings management to wetland management. **Commissioner Wheatlake** asked if the DNR would work with partners to plant food plots on public lands. **Russ** said that it may be a possibility.

The meeting adjourned at 11:00 a.m.

CROSSBOW DISCUSSION

December 4, 2008

Commissioners Madigan and Richardson convened a crossbow discussion at 12:30 p.m.

Michael Bailey, Wildlife Division, provided an analysis of other states' crossbow regulations and provided some considerations for Michigan regulations changes. Following is a summary:

- 21 States require Special Permits
- 16 States have a specific season or allow crossbows during gun season
- 12 States allow crossbows during all archery hunts
- 1 State – crossbows are not legal

No information exists relative to States which previously opened up the crossbow usage then retracted.

Mr. Bailey reviewed the various States' regulations as well as hunter participation and harvest resulting from additional crossbow seasons and usage. Currently, 24,000 crossbow permits have been issued in Michigan. On average, 2,100 applications for crossbows are received annually.

If 10 percent of the total hunters hunt with crossbows, that would mean that 70,000 hunters would hunt with crossbows with a potential harvest of 48,000 deer.

Mr. Bailey said allowing broader use of crossbows could increase urban deer management, increase antlerless harvest, increase hunter retention and may assist with hunter recruitment.

Brian Frawley, Wildlife Division, reviewed crossbow study considerations such as:

Identify crossbow hunters (population)

- Add questions to existing surveys
- Create a new retail sales system license
- Add harvest information program-style questions
- create a new permit.

Public Discussion:

John Sullivan asked what was the intent of the study? **Mr. Frawley** responded it is to answer questions, and there are still more questions to answer.

In response to a question by Commissioner Madigan, the DNR cannot create a new crossbow license but the license could be made free. Discussion ensued relative to the DNR not being able to issue crossbow licenses.

Merle Shepard, Safari Club International, asked what is the peak age of firearm hunters? **Director Humphries** asked if it is know when hunters drop off – at what age?

Bruce Levey asked whether states with crossbow licenses, how much public vs. private land they have. He said Michigan has the second most public land east of the Mississippi.

Dean Hall, Michigan Bowhunters Association, asked if any of the states who have crossbow seasons have as many hunters and the season size as does Michigan?

Commissioner Madigan adjourned the meeting at 1:30 p.m. and asked that staff develop some recommendations for discussion at the January 8, 2009 meeting during the scheduled crossbow discussion.

NRC POLICY COMMITTEE ON FINANCE AND ADMINISTRATION

DECEMBER 4, 2008

LANSING CENTER

PRESENT FOR THE COMMITTEE/COMMISSION

Commissioner Frank Wheatlake, Committee Chair
Commissioner Darnell Earley
Commissioner J.R. Richardson
Commissioner Chair Keith Charters
Commissioner Mary Brown

The meeting convened at 1:35 p.m.

Commissioner Earley stated that due to other obligations, he would not seek reassignment and this would be the last meeting he would attend.

YEAR-END BALANCES

Sharon Schafer, Chief, Budget and Support Services, reviewed DNR's year-end fund balances report and the snowmobile registration fund reduction. (The full report can be viewed at the following web address:

http://www.michigan.gov/dnr/0,1607,7-153-39002_11862_49123---,00.html

Ms. Schafer noted these un-audited year-end fund balances are subject to final review and approval by the Department of Management and Budget's Office of Financial Management. Discussion ensued on the estimated ending balance as of September 30, 2008 and the actual ending fund balances.

Lynne Boyd, Chief, Forest, Mineral and Fire Management, stated the timber sale revenue ending balance is higher than the projected amount due to an increase in the volume of sales this year which accounts for the difference in the Forest Development fund balance.

The ending Game and Fish – General Purpose fund balance of \$138,700 was lower than projected in July because revenue was about \$1 million less than projected and spending was at 99% of appropriated levels, as compared to the projected level of 95%. Lapses were held to less than \$1,000,000.

Commissioner Wheatlake asked about the growing Youth Outreach fund balance and **Ms. Schafer** responded that the Office of Communications appropriation had been increased for future years starting in FY 2010.

Ron Olson, Chief of Parks and Recreation Division, said camping numbers were down approximately 5.2 percent and also motor vehicle permits were slightly down.

Ms. Schafer pointed out that the State Park Improvement fund balance of \$2 million does not leave a large cushion in case of emergency.

Ms. Schafer explained that the close-out of prior year snowmobile club grants resulted in the fund balance in the Snowmobile Trail Improvement fund being higher than projected.

Discussion ensued regarding previously established “target” fund balance levels and whether this should be further discussed and reconsidered at future meetings.

Ms. Schafer reviewed the “Projected Available Balances and Current Spending Authority” report. She pointed out that if the “Estimated Revenue” column amount exceeded the Appropriation column amount that meant that a fund had a “structural deficit.” Structural deficits can be addressed by spending from fund balance, increasing revenues, or reducing spending. She also explained that “Planned Reductions” were in place for three funds, but that additional reductions in other funds would be needed. The “Surplus/Shortfall” column is based upon current estimated revenues and spending authority (not “spending plans”). She continued her review of the financial report, highlighting particular funds. The Forest Recreation fund shortfall will be addressed by withholding spending of capital outlay appropriations.

The Game and Fish shortfall of approximately \$10 million would need to be addressed.

Ms. Schafer also pointed out that \$12.2 million of the estimated Game and Fish revenues were from the Game and Fish Trust Fund, and that could be adversely impacted by recent financial market problems. The \$12.2 million includes an assumed distribution of \$2.7 million from equity holdings, but thus far this year significant market losses have occurred. As previously committed to by the DNR, we will be working with stakeholders to develop spending plans to maintain the highest priority programs.

The Park Improvement Fund is projected to have a \$1.5 million issue. However, due to economy and market conditions, the revenues will have to be monitored very closely. Parks has been reducing their spending over the last couple of years to keep some fund balance, but we are now at a point where the fund balance will be exhausted. The infrastructure component is only \$2 million annually and doesn’t begin to address the issues.

Director Humphries provided additional insight regarding the Department’s budget. She stated during the past year much was accomplished while opening the books and being as transparent as we possibly could. We have not forgotten also that our partners were very clear in their disapproval the last time reductions were made, and it was not done in an open and transparent manner. As we move forward we have to be aware of the fact that these conservation programs are a very important part of our heritage and part of Michigan’s future.

Director Humphries further added that looking ahead, it is clear that savings accounts are empty. We have gone beyond just spending what’s in the checking account, we have been spending out of the savings account and now that savings account, in which we hoped to keep \$10 million, is now \$138,000 in Game and Fish. She further stated Parks is experiencing the same problems. We are spending off our savings account and it is almost depleted. Looking forward, we will be developing a spend plan. We know

what we need to reduce in each of these accounts. We need your help, as well as the public and our partners help, in identifying key priorities. **Director Humphries** made the commitment very clear. There will be many conversations with our partners to help us as we move forward and make reductions. Identified priorities will be covered. As much as we don't like to see reductions, the reductions are made in areas that we can all support. Hopefully, wise decisions for the future will be made, because she believes each of us want to have good investments for the future of the DNR.

Director Humphries admitted this was a very painful discussion and after looking at these figures, there doesn't appear to be a recovery in sight due to inflation. She concluded by stating emphatically that the DNR is totally committed to the mission of protecting our natural resources and the enjoyment of optimum recreation.

Ms. Schafer highlighted that the structural deficit in the Wildlife Resource Protection Fund was causing that fund balance to be depleted, even with the planned level of reduction. Detail was provided for the Snowmobile Registration fund spending reduction plan, which has been implemented to avoid a deficit. The primary impact of the reduction is lessened snowmobile enforcement by both the DNR and local police.

TREASURY INVESTMENT UPDATE

Woodrow Tyler, Paul Nelson and Daniel Quigley represented the Department of Treasury, Stock Analysis Services.

The "Financial Market Turmoil" document that was also distributed by **Mr. Tyler** was useful in promoting a discussion on where to go from here. It was pointed out that this year's stock market losses, which largely have occurred since September 15, rank among the largest in history. Treasury advocates a "stay the course" approach with respect to equities and provided historical data demonstrating that down-turns are often the best times to invest.

With respect to the fixed income portfolio, Treasury is adding to higher yielding quality corporate bond holdings and reducing lower yielding government bonds. **Mr. Nelson** explained that there currently is an unusually wide spread in interest rates between high quality corporate bonds and low risk government securities.

Mr. Tyler distributed an Investment Report, which provided information individually for each investment fund, including a comparison of investment performance against benchmarks. Generally for all the funds, market value losses late in the year more than off-set interest and dividend income during Fiscal Year 2008. Discussion focused mostly on the pages dealing with the amount available for investment and targeted investment amounts for each fund, as well as the performance up through September 30, 2008. It was noted that because of accumulated stabilization reserves in the funds, spending distributions for Fiscal Year 2008 were not impacted.

Mr. Wheatlake asked specifically about whether any of the DNR Trust Funds were directly invested in and suffered losses from recent failures of major investment firms. **Mr. Tyler** replied no, except to the extent that those firms were reflected in the S&P 500 mutual fund holdings. He noted that all current fixed income investments for the DNR are high quality low risk governmental and highly rated corporate debt. Recent actions

by the federal government to support federal agency debt further improved the safety of some of those holdings.

Discussion ensued regarding future asset allocation. With respect to “rebalancing” the portfolio by acquiring additional equities to get back to target levels, Treasury would likely do so over time, as they believe stocks are currently cheap and long-term returns should be good. **Mr. Frick** observed that the large addition to Natural Resource Trust Fund corpus caused by high oil and gas revenues in 2008, combined with the market value declines in equities, could result in larger than usual additions to investments and equities in that fund in the coming year. The current target allocation recommended by the Board for that fund is 25 percent equities.

The Game and Fish Trust Fund’s asset allocation to equities was discussed and it was agreed that this should be reduced to 30 percent. As was discussed in the fund balance review, the program fund is more dependent than previously on reliable investment distributions because of its depleted fund balance. The Game and Fish Trust Fund’s stabilization reserves have been depleted by the market down-turn, thus posing a potential distribution problem if the market does not recover recent losses before next year-end. Because the market decline has resulted in a major reduction in equity holdings already, the decrease in equity holdings can be largely achieved by simply not adding to current equity investments.

Also discussed were whether or not stabilization reserves should be more conservatively invested than principal amounts and how DNR moneys were related to the other State treasury funds and investments. The fixed income and equity investments are held separate from other funds, but the State’s common cash (which is where operating funds and investment funds not invested are held) could be impacted if the State were to have cash flow problems. The State does earn and distribute interest on the common cash balances, although those rates are currently low.

The meeting adjourned at 2:55pm.